

# Semi-Annual Financial Statements

BMO Harris Private Portfolios

June 30, 2014

**BMO Harris Canadian Income Equity Portfolio**

## NOTICE OF NO AUDITOR REVIEW OF THE SEMI-ANNUAL FINANCIAL STATEMENTS

BMO Harris Investment Management Inc., the Manager of the Portfolios, appoints independent auditors to audit the Portfolio's Annual Financial Statements. Under Canadian securities laws (National Instrument 81-106), if an auditor has not reviewed the Semi-Annual Financial Statements, this must be disclosed in an accompanying notice.

The Portfolio's independent auditors have not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

## BMO Harris Canadian Income Equity Portfolio

(unaudited)

### STATEMENT OF FINANCIAL POSITION

*(All amounts in thousands of Canadian dollars, except per unit data)*

As at	June 30 2014	December 31 2013	January 1 2013
<b>Assets</b>			
<b>Current Assets</b>			
Cash	39,073	17,022	25,093
Investments			
Non-derivative financial assets	1,294,202	1,157,939	885,035
Subscriptions receivable	835	549	813
Dividends receivable	4,377	3,232	3,079
<b>Total assets</b>	1,338,487	1,178,742	914,020
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Redemptions payable	1,018	883	605
Distributions payable	400	—	—
Accrued expenses	47	69	58
<b>Total liabilities</b>	1,465	952	663
<b>Net assets attributable to holders of redeemable units</b>	1,337,022	1,177,790	913,357
<b>Net assets attributable to holders of redeemable units per unit</b>	\$ 8.12	\$ 7.55	\$ 6.61

*The accompanying notes are an integral part of these financial statements.*

## BMO Harris Canadian Income Equity Portfolio

(unaudited)

### STATEMENT OF COMPREHENSIVE INCOME

(All amounts in thousands of Canadian dollars, except per unit data)

For the periods ended	June 30 2014	June 30 2013
<b>Income</b>		
Interest income	237	162
Dividend income	19,693	16,296
Distribution from investment trusts	694	—
Other changes in fair value of investments and derivatives		
Net realized gain (loss)	15,487	(1,935)
Change in unrealized appreciation	75,494	9,613
Net gain in fair value of investments and derivatives	111,605	24,136
Foreign exchange gain (loss) on cash	(37)	103
Total other income (loss)	(37)	103
<b>Total income</b>	111,568	24,239
<b>Expenses</b>		
Sub-advisory fees	697	599
Audit fees	7	8
Independent review committee fees	3	2
Custodian fees	9	7
Legal and filing fees	28	31
Unitholder servicing fees	125	121
Printing and stationery fees	4	6
Commissions and other portfolio transaction costs (note 6)	122	128
Operating expenses absorbed by the Manager	(697)	(599)
<b>Total expenses</b>	298	303
<b>Increase in net assets attributable to holders of redeemable units</b>	111,270	23,936
<b>Increase in net assets attributable to holders of redeemable units per unit (note 3)</b>	0.70	0.17

The accompanying notes are an integral part of these financial statements.

## BMO Harris Canadian Income Equity Portfolio

(unaudited)

### STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

*(All amounts in thousands of Canadian dollars)*

<b>For the periods ended</b>	<b>June 30 2014</b>	<b>June 30 2013</b>
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	1,177,790	913,357
Increase in net assets attributable to holders of redeemable units	111,270	23,936
<b>Distributions to holders of redeemable units</b>		
From net investment income	(19,206)	(15,529)
<b>Total distributions to holders of redeemable units</b>	(19,206)	(15,529)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	157,049	155,262
Reinvestments of distributions to holders of redeemable units	18,426	14,939
Redemption of redeemable units	(108,307)	(80,019)
<b>Net increase from redeemable unit transactions</b>	67,168	90,182
<b>Net increase in net assets attributable to holders of redeemable units</b>	159,232	98,589
<b>Net assets attributable to holders of redeemable units at end of period</b>	1,337,022	1,011,946

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## BMO Harris Canadian Income Equity Portfolio

(unaudited)

### STATEMENT OF CASH FLOWS

(All amounts in thousands of Canadian dollars)

For the periods ended	June 30 2014	June 30 2013
<b>Cash flows from operating activities</b>		
Increase in net assets attributable to holders of redeemable units	111,270	23,936
Adjustments for:		
Foreign exchange loss (gain) on cash	37	(103)
Net realized (gain) loss on sale of investments and derivatives	(15,487)	1,935
Change in unrealized (appreciation) of investments and derivatives	(75,494)	(9,613)
Increase in dividends receivable	(1,145)	(497)
Increase in accrued interest on money market investments	(102)	(48)
Decrease in accrued expenses	(22)	(9)
Purchases of investments	(126,649)	(131,180)
Proceeds from sale and maturity of investments	81,469	29,769
<b>Net cash from operating activities</b>	<b>(26,123)</b>	<b>(85,810)</b>
<b>Cash flows used in financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	(380)	(295)
Proceeds from issuances of redeemable units	156,763	155,661
Amounts paid on redemption of redeemable units	(108,172)	(79,719)
<b>Net cash used in financing activities</b>	<b>48,211</b>	<b>75,647</b>
Foreign exchange (loss) gain on cash	(37)	103
Net increase (decrease) in cash	22,088	(10,163)
Cash at beginning of period	17,022	25,093
<b>Cash at end of period</b>	<b>39,073</b>	<b>15,033</b>
Supplementary Information		
Interest received, net of withholding taxes*	135	142
Dividends received, net of withholding taxes*	18,548	15,800

\*These items are from operating activities

The accompanying notes are an integral part of these financial statements.

## BMO Harris Canadian Income Equity Portfolio

(unaudited)

### SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2014 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
<b>Money Market Investments — 3.0%</b>			
<i>Corporate — 3.0%</i>			
Bank of Nova Scotia, Bearer Deposit Notes, 1.173% Sep 5, 2014	10,000	9,942	9,979
National Bank of Canada, Bearer Deposit Notes, 1.153% Aug 5, 2014	10,000	9,943	9,989
National Bank of Canada, Bearer Deposit Notes, 1.184% Oct 14, 2014	10,000	9,941	9,966
National Bank of Canada, Bearer Deposit Notes, 1.173% Dec 19, 2014	10,000	9,942	9,945
		39,768	39,879
<b>Total Money Market Investments — 3.0%</b>		<b>39,768</b>	<b>39,879</b>

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Equities</b>			
<i>Consumer Discretionary — 5.1%</i>			
Thomson Reuters Corporation	607,600	21,883	23,605
Tim Hortons Inc.	751,400	28,823	43,859
		50,706	67,464
<i>Consumer Staples — 1.6%</i>			
Loblaw Companies Limited	458,699	10,108	21,843
<i>Energy — 21.8%</i>			
ARC Resources Ltd.	531,600	11,638	17,272
Canadian Natural Resources Limited	420,300	14,960	20,607
Cenovus Energy Inc.	635,700	15,460	21,989
Crescent Point Energy Corp.	1,126,300	47,634	53,263
Enbridge Inc.	1,104,500	28,308	55,920
Peyto Exploration & Development Corp.	433,500	11,092	17,474
PrairieSky Royalty Ltd.	451,800	12,650	17,530
Suncor Energy Inc.	1,194,920	32,111	54,369
TransCanada Corporation	666,300	23,388	33,935
		197,241	292,359
<i>Financials — 44.3%</i>			
Bank of Nova Scotia	1,337,600	64,579	95,157
Brookfield Asset Management Inc., Class A	1,060,300	37,561	49,845
Canadian Imperial Bank of Commerce	173,200	11,245	16,818
Canadian Western Bank	498,600	12,823	19,889
IGM Financial Inc.	703,800	26,335	35,950
Intact Financial Corporation	450,900	28,087	33,177
Manulife Financial Corporation	2,528,200	42,330	53,623
National Bank of Canada	1,285,400	35,355	58,177
Royal Bank of Canada	1,117,450	53,422	85,239
Sun Life Financial Inc.	1,241,558	35,501	48,694
Toronto-Dominion Bank, The,	1,757,200	57,567	96,523
		404,805	593,092
<i>Industrials — 5.4%</i>			
Canadian National Railway Company	570,700	16,142	39,607
Finning International Inc.	417,900	10,148	12,470

The accompanying notes are an integral part of these financial statements.

## BMO Harris Canadian Income Equity Portfolio

(unaudited)

### SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2014 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
SNC-Lavalin Group Inc.	364,400	16,429	20,450
		42,719	72,527
<i>Materials — 4.4%</i>			
Barrick Gold Corporation	483,100	17,873	9,440
Goldcorp Inc.	672,237	22,581	20,019
Potash Corporation of Saskatchewan Inc.	331,100	13,060	13,436
Teck Resources Limited, Class B	664,700	18,190	16,192
		71,704	59,087
<i>Telecommunication Services — 7.3%</i>			
BCE Inc.	924,755	29,275	44,758
Bell Aliant Inc.	200,000	5,528	5,578
Rogers Communications Inc., Class B	232,900	8,670	10,001
TELUS Corporation	920,400	26,344	36,604
		69,817	96,941
<i>Utilities — 3.9%</i>			
Brookfield Infrastructure Partners L.P.	678,850	14,256	30,229
Fortis Inc.	640,000	17,865	20,781
		32,121	51,010
<b>Total Equities — 93.8%</b>		<b>879,221</b>	<b>1,254,323</b>
<b>Total Investment Portfolio — 96.8%</b>		<b>918,989</b>	<b>1,294,202</b>
<b>Other Assets Less Liabilities — 3.2%</b>			<b>42,820</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS — 100.0%</b>			<b>1,337,022</b>

+ Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio

The accompanying notes are an integral part of these financial statements.

# BMO Harris Canadian Income Equity Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS

*(All amounts in thousands of Canadian dollars, except per unit data)*

June 30, 2014

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### 1. The Portfolio

BMO Harris Canadian Income Equity Portfolio (“the Portfolio”) is an open-ended mutual fund trust established by a Declaration of Trust under the laws of the Province of Ontario, most recently amended on September 18, 2007. BMO Harris Investment Management Inc. (“the Manager”) is the Manager of the Portfolio. The address of the Portfolio’s registered office is 1 First Canadian Place, 41<sup>st</sup> Floor, Toronto, Ontario.

The information provided in these interim financial statements is for the periods ended June 30, 2014 and June 30, 2013, except for the comparative information in the Statement of Financial Position and the related notes, which are as at December 31, 2013 and January 1, 2013.

These financial statements were authorized for issue by BMO Trust Company, the trustee, on August 12, 2014.

### 2. Basis of preparation and presentation

These interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) IAS 34 Interim Financial Reporting. These are the Portfolio’s first interim financial statements during the first year of reporting in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

As required by Canadian securities legislation and the Canadian Accounting Standards Board, the Portfolio has adopted this basis of accounting effective January 1, 2014. The Portfolio’s financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), as previously defined and as described in the notes to the Portfolio’s annual financial statements for the year ended December 31, 2013. Canadian GAAP, as previously defined, differs in some areas from IFRS. To comply with IFRS, the Portfolio has amended certain accounting policies, classification, measurement and disclosure previously applied in the Canadian GAAP financial statements.

As required under IFRS, the Portfolio has:

- provided comparative financial information including an opening Statement of Financial Position as at the transition date
- retroactively applied all IFRS, other than in respect of elections taken under IFRS 1; and
- applied all mandatory exceptions as applicable for the first-time adopters of IFRS.

The interim financial statements should be read in conjunction with the Portfolio’s Canadian GAAP annual financial statements for the year-ended December 31, 2013.

Note 8(h) contains reconciliations and descriptions of the effects of the transition to IFRS on the Portfolio’s reported financial position, financial performance and cash flows.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 12, 2014, the date the Manager approved the statements. Any subsequent changes to IFRS that are given effect in the Portfolio’s annual financial statements for the period ending December 31, 2014 could result in a restatement of these interim financial statements, including the transition adjustments.

### 3. Summary of significant accounting policies

#### Financial instruments

The Portfolio records financial instruments at fair value. Investment transactions are accounted for on the trade date. The Fund’s investments are either designated as fair value through profit or loss (“FVTPL”) at inception or classified as held for trading. The changes in the investment fair values and related transaction costs are recorded in the Portfolio’s Statement of Comprehensive Income.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future, or on initial recognition, are part of a portfolio of identified financial instruments that the Portfolio manages together and that have a recent actual pattern of short-term profit taking. The Portfolio classifies all derivatives and short positions as held for trading. The Portfolio does not designate any derivatives as hedges in a hedging relationship.

The Portfolio designates all other investments as FVTPL, as they have reliably measurable fair values, are part of a group of financial assets or liabilities that are managed and have their performance evaluated on a fair value basis in accordance with the Fund’s investment strategy.

The Portfolio’s redeemable units contain multiple contractual obligations and consequently, do not meet the conditions to be classified as equity. As a result, the Fund’s obligations for net assets attributable to holders of redeemable units are presented at the redemption amounts.

# BMO Harris Canadian Income Equity Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)*

June 30, 2014

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All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid or discounted, when appropriate, at the contract's effective interest rate.

### Cost of investments

The cost of investments represents the amount paid for each security and is determined on an average cost basis.

### Fair value measurement

Investments are recorded at their fair value with the change between this amount and their average cost being recorded as change in unrealized appreciation (depreciation) in the Statement of Comprehensive Income.

For exchange traded securities, close prices are considered to be fair value if they fall within the bid-ask spread. In circumstances where the close price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

Procedures are in place to fair value securities traded in countries outside of North America daily, to avoid stale prices and to take into account among, other things, any significant events occurring after the close of a foreign market.

For bonds, debentures, asset-backed securities and other debt, securities fair value is represented by bid prices provided by independent security pricing services. Short-term investments, if any, are amortized at cost which approximates fair value.

Exchange traded funds held as investments are valued at their respective Net Asset Value ("NAV") on each Valuation Date (the "Valuation Date" is each day on which the Toronto Stock Exchange is open for trading), as these values are the most readily and regularly available.

For securities where market quotes are not available, unreliable or not considered to reflect the current value, the Portfolio may determine another value which it considers to be fair and reasonable, or using a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data, including volatility, comparable companies and other applicable rates or prices. These estimation techniques include discounted

cash flows, internal models that utilize observable data, or comparisons with other securities that are substantially similar. In limited circumstances, the Fund uses internal models where the inputs are not based on observable market data.

### Derivative instruments

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, or other financial or commodity prices or indices.

Derivative instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts. The Portfolio may use these instruments for trading purposes, as well as to manage the Portfolio's risk exposures.

Derivatives are marked to fair value. Realized and unrealized gains and losses are recorded in the Statement of Comprehensive Income.

### Forward currency contracts

A forward currency contract is an agreement between two parties (the Portfolio and the counterparty) to purchase or sell a currency against another currency at a set price on a future date. The Portfolio may enter into forward currency contracts for hedging purposes, which can include the economic hedging of all or a portion of the currency exposure of an investment or group of investments, either directly or indirectly. The Portfolio may also enter into these contracts for non-hedging purposes, which can include increasing the exposure to a foreign currency, or shifting the exposure to foreign currency fluctuations from one country to another. The value of forward currency contracts entered into by the Portfolio is recorded as the difference between the value of the contract on the Valuation Date and the value on the date the contract originated.

### Income recognition

Dividend income and distributions from investment trust units are recognized on the ex-dividend and ex-distribution date, respectively.

Interest income from interest bearing investments is recognized in the Statement of Comprehensive Income using the effective interest rate. Interest receivable shown in the Statement of Financial Position is accrued based on the interest bearing instruments' stated rates of interest.

Interest on inflation-indexed bonds is paid based on a principal value, which is adjusted for inflation.

# BMO Harris Canadian Income Equity Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

June 30, 2014

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The inflation adjustment of the principal value is recognized as part of interest income in the Statement of Comprehensive Income. If held to maturity, the Portfolio will receive, in addition to a coupon interest payment, a final payment equal to the sum of the par value and the inflation compensation accrued from the original issue date. Interest is accrued on each Valuation Date based on the inflation adjusted par value at that time and is included in "Interest income" in the Statement of Comprehensive Income.

### Foreign currency translation

The fair value of investments and other assets and liabilities in foreign currencies are translated into the Portfolio's functional currency at the rates of exchange prevailing at the period-end date. Purchases and sales of investments, and income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in "Realized gains (losses)" and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to cash are included as "Foreign exchange gain (loss) on cash".

### Securities lending

A Portfolio may engage in securities lending pursuant to the terms of an agreement, which includes restrictions as set out in Canadian securities legislation. Collateral held is government Treasury Bills and qualified Notes.

Income from securities lending, where applicable, is included in the Statement of Comprehensive Income and is recognized when earned. The market value of the securities loaned and collateral held is determined daily. Aggregate values of securities held in trust as at June 30, 2014, and December 31, 2013 and January 1, 2013, where applicable, are disclosed in Note 8(e).

### Short-term trading penalty

To discourage excessive trading, the Portfolio may, at the Manager's sole discretion, charge a short-term trading penalty. This penalty is paid directly to the Portfolio and is included in "Short-term penalty fees" in the Statement of Comprehensive Income.

### Cash

Cash is comprised of cash and deposits with banks, which include banker acceptances and overnight demand deposits. Cash is recorded at amortized cost.

### Other assets and other liabilities

Dividend receivable, interest receivable, distributions from investment trust units receivable, due from broker and subscriptions receivable, are initially measured at fair value and subsequently measured at amortized cost. Similarly, due to broker, redemptions payable and accrued expenses, are initially measured at amortized cost. Other assets and liabilities are short-term in nature, and are carried at cost or amortized cost, which approximates fair value.

### Increase or decrease in net assets attributable to holders of redeemable units

"Increase (decrease) in net assets attributable to holders of redeemable units" in the Statement of Comprehensive Income represents, the increase (decrease) in net assets attributable to holders of redeemable units divided by the weighted average number of units outstanding during the period.

### Taxation

The Portfolio qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders so that the Portfolio will not be subject to income tax. As a result, the Portfolio has determined that it is in substance not taxable and therefore does not record income taxes in the Statement of Comprehensive Income and or recognize any deferred tax assets in the Statement of Financial Position.

The Portfolio may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis with the related withholding taxes shown as a separate expense in the Statement of Comprehensive Income.

### Investments in subsidiaries, joint ventures and associates

Subsidiaries are entities over which the Portfolio has control through its exposure or rights to variable returns from its investment, and has the ability to affect those returns through its power over the entity. The Portfolio has determined that it is an investment entity and as such, it accounts for subsidiaries at fair value. Joint ventures are those where the Portfolio exercises joint control through an agreement with other shareholders. Associates are investments in which the Portfolio exerts significant influence over operating, investing, and financing decisions (such as companies in which the

# BMO Harris Canadian Income Equity Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

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Portfolio owns 20% - 50% of voting shares), all of which have been designated at FVTPL.

### Accounting standards issued but not yet adopted

Below are accounting standards issued or amended but not yet effective and not yet adopted. The Manager does not expect the adoption of these standards or amendments to have a significant impact to the Portfolio's financial statements.

In July 2014, the IASB issued the most recent version of IFRS 9 Financial Instruments, which addresses classification and measurement, impairment and hedge accounting.

The new standard requires assets to be carried at amortised cost, fair value through profit and loss or fair value through

comprehensive income based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The classification and measurement of liabilities remains generally unchanged with the exception of liabilities recorded at fair value through profit and loss. For these liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income.

The new standard also addresses impairment of financial assets. It also introduced a new hedge accounting model that expands the scope of eligible hedged items and risks eligible for hedge accounting, and aligns hedge accounting more closely with risk management.

The new standard is effective for the Portfolio for its fiscal year beginning January 1, 2018. The Portfolio is evaluating the impact of this standard on its financial statements.

### 4. Critical accounting estimates and judgments

The most significant accounting estimates and judgments that the Portfolio has made in preparing the financial statements relate to the fair value measurement and classification of investments.

The Portfolio has established policies and control procedures that are intended to ensure these judgments are well controlled, independently reviewed, and consistently applied from period to period. The estimates of the value of the Portfolio's assets and liabilities are believed to be appropriate as at the reporting date.

The Portfolio may hold financial instruments that are not quoted in active markets. Note 3 discusses the estimates used in determining fair value.

In classifying and measuring financial instruments held by the Portfolio, the Manager is required to make significant judgments about whether or not the business of the Portfolio is to invest on a total return basis for the purpose of applying the fair value options for financial assets.

### 5. Units and unit transactions

The redeemable units of the Portfolio are classified as liabilities.

The units have no par value and are entitled to distributions, if any. Upon redemption, a unit is entitled to a proportionate share of the Portfolio's NAV. The Portfolio is required to pay distributions in an amount not less than the amount necessary to ensure the Portfolio will not be liable for income taxes. The Portfolio has no restrictions or specific capital requirements on the subscriptions and redemptions of units except as disclosed in Note 8(a). The relevant movements in redeemable units are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 7, the Portfolio endeavours to invest the subscriptions received in appropriate investments, while maintaining sufficient liquidity to meet redemptions, with such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

Redeemable units of the Portfolio are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit of a particular series. The NAV per unit for the purposes of subscription or redemption is computed by dividing the NAV of the Portfolio (that is, the total fair value of the assets less the liabilities) by the total number of units of the Portfolio outstanding at such time.

### 6. Related party transactions

#### (a) Unitholder servicing, sub-advisory commissions and other portfolio transaction costs

The Portfolio is provided with certain facilities and services by affiliates of the Manager. Expenses incurred in the administration of the Portfolio were paid to BMO Trust Company ("the Trustee") and to BMO Asset Management Inc. ("the Registrar") and charged to the Portfolio. These expenses are included in "Unitholder

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

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servicing fees” in the Statement of Comprehensive Income.

The sub-advisors (including affiliates of the Manager, where applicable) engaged by the Manager provide investment advice and make investment decisions for the Portfolio. For these services, the sub-advisors receive sub-advisory fees that are paid monthly by the Manager. These expenses are included in “Sub-advisory fees” in the Statement of Comprehensive Income. Any sub-advisory fees less than or equal to 0.15% of the net asset value of the Portfolio are absorbed by the Manager.

The Portfolio may execute trades with and or through BMO Nesbit Burns Inc., an affiliate of the Manager, based on established standard brokerage agreements, at market prices. These fees are included in “Commissions and other portfolio transaction costs” in the Statement of Comprehensive Income. Refer to Note 8(d) for related party fees charged to the Portfolio for the periods ended June 30, 2014 and June 30, 2013.

### (b) Other related party transactions

From time to time, the Manager may on behalf of the Portfolio enter into transactions or arrangements with or involving subsidiaries or affiliates of Bank of Montreal group, or certain other persons or companies that are related or connected to the Manager of the Portfolio. These transactions or arrangements may include transactions or arrangements with or involving subsidiaries or affiliates of Bank of Montreal, BMO Trust Company, BMO Nesbitt Burns Inc., Harris Investment Management Inc., BMO Asset Management Inc., BMO Investments Inc., Pyrford International Ltd, Lloyd George Management Inc., F&C Asset Management plc, or other investment funds offered by BMO, and may involve the purchase or sale of portfolio securities through or from a subsidiary or affiliate of Bank of Montreal, the purchase or sale of securities issued or guaranteed by a subsidiary or affiliate of Bank of Montreal, entering into forward contracts with a subsidiary or affiliate of Bank of Montreal acting as counterparty, the purchase or redemption of units of other BMO Harris Private Portfolios or the provision of services to the Manager.

### 7. Financial instrument risk

The Portfolio’s activities expose it to a variety of risks associated with the financial instruments, as follows: market risk (including currency risk, interest rate risk and other market risk), credit risk and liquidity risk. The concentration table groups securities by asset

type, geographic location and/or market segment. The Portfolio’s risk management practice outlines the monitoring of compliance to investment guidelines.

The Manager manages the potential effects of these financial risks on the Portfolio’s performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Portfolio’s positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

### (a) Currency risk

Currency risk is the risk that the value of financial instruments denominated in currencies, other than the functional currency of the Portfolio, will fluctuate due to changes in foreign exchange rates. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Portfolio’s functional currency in determining fair value. The Portfolio may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Portfolio’s exposure to currency risk, if any, is further disclosed in Note 8(e).

### (b) Interest rate risk

Interest rate risk is the risk that the fair value of the Portfolio's interest-bearing investments will fluctuate due to changes in market interest rates. The Portfolio's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, money market instruments, short-term investments and debentures) and interest rate derivative instruments, if any. Other assets and liabilities are short-term in nature and/or non-interest bearing. The Portfolio's exposure to interest rate risk, if any, is further discussed in Note 8(e).

### (c) Other market risk

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market or market segment. Other assets and liabilities are monetary items that are short-term in nature, and as such they are not subject to other market risk. The Portfolio's exposure to other market risk, if any, is further discussed in Note 8(e).

# BMO Harris Canadian Income Equity Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)*

*June 30, 2014*

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### **(d) Credit risk**

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Portfolio's unrealized gain of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. The Portfolio's exposure to credit risk, if any, is further discussed in Note 8(e).

The Portfolio may enter into securities lending transactions with approved counterparties. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient approved credit rating and the market value of collateral held by the Portfolio must be at least 102% of the fair value of securities loaned, as disclosed in Note 8(e).

### **(e) Liquidity risk**

The Portfolio's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Portfolio primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Portfolio retains sufficient cash and cash equivalent positions to maintain liquidity. The Portfolio may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. The proportion of illiquid securities to the NAV of the Portfolio is monitored by the Manager to ensure it does not exceed the regulatory limit and does not significantly affect the liquidity required to meet the Portfolio's financial obligations.

# BMO Harris Canadian Income Equity Portfolio

(unaudited)

## NOTES TO FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

June 30, 2014

### 8. Portfolio specific information

#### (a) Portfolio information and change in units

The Portfolio's inception date was May 15, 1997.

The number of units that have been issued and are outstanding are disclosed in the table below.

For the periods ended (in thousands of units)	Jun. 30, 2014	Jun. 30, 2013
Units issued and outstanding, beginning of period	156,070	138,266
Issued for cash	20,297	22,857
Issued on reinvestment of distributions	2,323	2,212
Redeemed during the period	(14,093)	(11,796)
Units issued and outstanding, end of period	164,597	151,539

#### (b) Increase (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the periods ended June 30, 2014 and June 30, 2013 is calculated as follows:

	Jun. 30, 2014	Jun. 30, 2013
Increase in net assets attributable to holders of redeemable units	111,270	23,936
Weighted average units outstanding during the period	159,398	144,650
Increase in net assets attributable to holders of redeemable units per unit	0.70	0.17

#### (c) Income taxes

As at the tax year-ended December 2013, there were no capital and non-capital losses carried forward.

#### (d) Related party transactions

##### Unitholder servicing

The related party fees charged for unitholder servicing fees are as follows:

	Jun. 30, 2014	Jun. 30, 2013
Unitholder servicing (\$)	87	84

#### Brokerage commissions and soft dollars

Brokerage commissions paid on securities transactions and amounts paid to related parties of the Manager for brokerage services provided to the Portfolio for the periods are as follows:

	Jun. 30, 2014	Jun. 30, 2013
Total brokerage amounts paid (\$)	122	128
Total brokerage amounts paid to related parties (\$)	7	2

The Manager may select brokers who charge a commission in "soft dollars" if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. There were no ascertainable soft dollars paid or payable to dealers by the Portfolio during the periods.

#### (e) Financial instrument risk

The Portfolio's objective is to provide a higher than average income stream primarily from income, royalties and distributions or dividends of equity securities of Canadian issuers.

No changes affecting the overall level of risk of investing in the Portfolio were made during the period.

##### Currency risk

As at June 30, 2014, December 31, 2013 and January 1, 2013, the Portfolio did not have any significant exposure to currency risk.

##### Interest rate risk

As at June 30, 2014, December 31, 2013 and January 1, 2013, the Portfolio did not have any significant exposure to interest rate risk.

##### Other market risk

The Portfolio has a significant exposure to other market risk arising from its investment in equity securities. The Portfolio's exposure to equity securities determine the extent to which the Portfolio reacts to the movements in the relevant Benchmark. Using historical correlation between the Portfolio's return and the return of its Benchmark, if the Benchmark, S&P/TSX Composite Index, had increased or decreased by 10%, with all other variables held constant, the Net Assets of the Portfolio would have increased or decreased, respectively, by \$86,925 (December 31, 2013 - \$78,298; January 1, 2013 - \$60,651). Historical correlation may not be representative of future correlation, and accordingly, actual results may differ and the difference could be material.

# BMO Harris Canadian Income Equity Portfolio

(unaudited)

## NOTES TO FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

June 30, 2014

### Credit risk

As at June 30, 2014, December 31, 2013 and January 1, 2013, the Portfolio did not have any significant exposure to credit risk.

### Securities lending

There were no assets involved in securities lending transactions as at June 30, 2014, December 31, 2013 and January 1, 2013.

### Concentration risk

The following is a summary of the Portfolio's concentration risk:

	Jun. 30, 2014	Dec. 31, 2013	Jan. 1, 2013
<b>Money Market Investments</b>			
Corporate	3.0%	1.7%	1.1%
<b>Equities</b>			
Consumer Discretionary	5.1%	5.9%	5.3%
Consumer Staples	1.6%	4.2%	3.9%
Energy	21.8%	18.6%	19.5%
Financials	44.3%	46.6%	41.5%
Industrials	5.4%	5.1%	4.8%
Materials	4.4%	4.6%	7.7%
Telecommunication			
Services	7.3%	7.7%	8.5%
Utilities	3.9%	4.0%	4.6%
Other Assets Less Liabilities	3.2%	1.6%	3.1%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### (f) Financial assets and financial liabilities

#### Categories of financial assets and financial liabilities

The table below shows the categories of financial assets and financial liabilities.

	Jun. 30, 2014	Dec. 31, 2013	Jan. 1, 2013
Financial assets designated at FVTPL	1,294,202	1,157,939	885,035
Loans and receivables	5,212	3,781	3,892
Financial liabilities measured at amortized cost	1,465	952	663

### Net gains and losses on financial assets and financial liabilities at fair value

	Jun. 30, 2014	Jun. 30, 2013
<b>Net realized gains on financial assets at FVTPL</b>		
Designated at FVTPL	36,111	14,523
	36,111	14,523
<b>Total net realized gains on financial assets at FVTPL</b>		
	36,111	14,523
<b>Change in unrealized gains on financial assets at FVTPL</b>		
Designated at FVTPL	75,494	9,613
	75,494	9,613
<b>Total change in unrealized gains on financial assets at FVTPL</b>		
	75,494	9,613

### (g) Fair value hierarchy

The Portfolio classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets or based on observable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The tables below show the relevant disclosure.

#### As at Jun. 30, 2014

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	1,254,323	—	—	1,254,323
Debt Securities	—	39,879	—	39,879
<b>Total</b>	<b>1,254,323</b>	<b>39,879</b>	<b>—</b>	<b>1,294,202</b>

#### As at Dec. 31, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	1,138,047	—	—	1,138,047
Debt Securities	—	19,892	—	19,892
<b>Total</b>	<b>1,138,047</b>	<b>19,892</b>	<b>—</b>	<b>1,157,939</b>

#### As at Jan. 1, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	875,067	—	—	875,067
Debt Securities	—	9,968	—	9,968
<b>Total</b>	<b>875,067</b>	<b>9,968</b>	<b>—</b>	<b>885,035</b>

# BMO Harris Canadian Income Equity Portfolio

(unaudited)

## NOTES TO FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

June 30, 2014

### Transfers between levels

There were no transfers between levels during the periods.

### (h) Transition to IFRS

The differences between the Portfolio's Canadian GAAP accounting policies and IFRS requirements resulted in measurement and classification differences on transition to IFRS. The net impact of these differences was recorded in opening Net Assets as of January 1, 2013.

The following information reflects the Portfolio's transition elections under IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), the standard for first-time adoption and the significant accounting changes resulting from our adoption of IFRS. The general principle under IFRS 1 is retroactive application, such that the Portfolio's Statement of Financial Position as at January 1, 2013 was restated as though the Portfolio has always applied IFRS with the net impact shown as an adjustment to opening Net Assets.

### Transition elections

The fund had applied the voluntary exemption upon transition to designate financial assets or financial liabilities at FVTPL. All financial assets designated at FVTPL upon transition were previously recorded at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

### Statement of cash flows

Under Canadian GAAP, the Portfolio was exempt from providing a Statement of Cash Flows. IAS 1, Presentation of Financial Statements ("IAS 1"), requires that a Statement of Cash Flows to be presented as part of a complete set of financial statements. As such, the Portfolio has presented a Statement of Cash Flows in the interim financial statements for the periods ended June 30, 2014 and June 30, 2013.

### Classification of redeemable units issued by the Portfolio

Under Canadian GAAP, redeemable units of the Portfolio were presented as Net Assets. IAS 32, Financial Instruments: Disclosure and Presentation ("IAS 32"), however, requires an assessment to determine whether the units issued to unitholders are puttable instruments that qualify for equity classification. The Portfolio's units do not meet the criteria in IAS 32 for equity classification and therefore, have been reclassified as financial liabilities on

transition to IFRS and presented on the Statement of Financial Position as Net Assets.

### Revaluation of investments at FVTPL

Canadian GAAP required the use of bid prices for long positions and ask prices for short positions in determining fair valuation of investments traded in an active market, rather than the use of close prices used for the purpose of determining NAV. IFRS 13, Fair Value Measurement ("IFRS 13"), requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. The standard also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. Upon adoption of IFRS, the fund has determined that for traded securities, close prices on the reporting date are considered to be fair value, if they fall within the bid-ask spread. See Note 3 for the Portfolio's fair value measurement policy.

### Reconciliation of Net Assets as reported under Canadian GAAP to IFRS

	Dec. 31, 2013	Jun. 30, 2013	Jan. 1, 2013
Net assets representing unitholders' equity under Canadian GAAP	1,177,127	1,010,293	911,790
Revaluation of investments at FVTPL	663	1,653	1,567
Net assets attributable to holders of redeemable units	1,177,790	1,011,946	913,357

### Reconciliation of increase (decrease) in net assets reported under Canadian GAAP to IFRS

	Dec. 31, 2013	Jun. 30, 2013
Increase in net assets from operations under Canadian GAAP	174,800	23,851
Revaluation of investments at FVTPL	664	85
Increase in net assets attributable to holders of redeemable units	175,464	23,936

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